

updated national average cost per discharge by a factor so that estimated aggregate payments based on the standard Federal rate adjusted by the payment adjustments described in §412.312(b) equal estimated aggregate payments based solely on the national average cost per discharge.

(2) Effective FY 1994, the standard Federal rate used to determine the Federal rate each year under paragraph (c) of this section is reduced by 7.4 percent.

(3) Effective FY 1996, the standard Federal rate used to determine the Federal rate each year under paragraph (c) of this section is reduced by 0.28 percent to account for the effect of the revised policy for payment of transfers under §412.4(d).

(4) Effective FY 1998, the unadjusted standard Federal capital payment rate in effect on September 30, 1997, used to determine the Federal rate each year under paragraph (c) of this section is reduced by 15.68 percent.

(5) For discharges occurring on or after October 1, 1997 through September 30, 2002, the unadjusted standard Federal capital payment rate as in effect on September 30, 1997, used to determine the Federal rate each year under paragraph (c) of this section is further reduced by 2.1 percent.

(c) *The Federal rate.* HCFA determines the Federal rate each year by adjusting the standard Federal rate by the following factors.

(1) *Update factor.* After FY 1992, HCFA updates the standard Federal rate as follows:

(i) *FY 1993 through FY 1995.* For FY 1993 through FY 1995, the standard Federal rate is updated based on a moving two-year average of actual increases in capital-related costs per discharge for the period three and four years before the fiscal year in question, excluding the portion of the increase attributable to changes in case mix.

(ii) *Effective FY 1996.* Effective FY 1996, the standard Federal rate is updated based on an analytical framework. The framework includes a capital input price index, which measures the annual change in the prices associated with capital-related costs during the year. HCFA adjusts the capital input price index rate of change to

take into account forecast errors, changes in the case mix index, the effect of changes to DRG classification and relative weights, and allowable changes in the intensity of hospital services.

(2) *Outlier payment adjustment factor.* HCFA reduces the updated standard Federal rate by an adjustment factor equal to the estimated additional payments under the Federal rate for outlier cases under subpart F of this part, determined as a proportion of total capital payments under the Federal rate.

(3) *Exceptions payment adjustment factor.* HCFA reduces the updated standard Federal rate by an adjustment factor equal to the estimated additional payments for exceptions under §412.348 determined as a proportion of total payments under the hospital-specific rate and Federal rate.

(4) *Budget neutrality adjustment factor.* (i) For FY 1992 through FY 1995, HCFA adjusts the updated standard Federal rate by a budget neutrality factor determined under §412.352.

(ii) HCFA makes an adjustment to the Federal rate so that estimated aggregate payments for the fiscal year based on the Federal rate after any changes resulting from the annual reclassification and recalibration of the DRG weight in accordance with §412.60(e) and in the geographic adjustment factors described in §412.312(b)(2) equal estimated aggregate payments based on the Federal rate that would have been made without such changes.

[56 FR 43449, Aug. 30, 1991; 57 FR 3016, Jan. 27, 1992, as amended at 58 FR 46339, Sept. 1, 1993; 59 FR 45399, Sept. 1, 1994; 60 FR 45849, Sept. 1, 1995; 62 FR 46031, Aug. 29, 1997]

§412.312 Payment based on the Federal rate.

(a) *General.* The payment amount for each discharge based on the Federal rate determined under §412.308(c) is determined under the following formula: [Federal rate X DRG weight X Geographic adjustment factor X Large urban add-on X (1 + Capital disproportionate share adjustment factor + capital indirect medical education adjustment factor) X (for hospitals located in

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Alaska and Hawaii, a cost-of-living adjustment factor)] + (Any applicable outlier payment).

(b) *Payment adjustments*—(1) *DRG weights*. The relative resource requirements of the discharge are taken into account by applying the DRG weighting factor that is assigned to the discharge under §412.60.

(2) *Geographic adjustment factors*—(i) *Local cost variation*. A geographic adjustment factor is applied that takes into account geographic variation in costs.

(ii) *Large urban add-on*. An additional adjustment is made for hospitals located in a large urban area to reflect the higher costs incurred by hospitals located in those areas.

(iii) *Cost-of-living adjustment*. An additional adjustment is made for hospitals located in Alaska and Hawaii to account for the higher cost-of-living in those States.

(3) *Disproportionate share adjustment*. For hospitals with at least 100 beds located in an urban area and serving low-income patients, a disproportionate share adjustment factor is applied that reflects the higher costs attributable to furnishing services to low income patients.

(4) *Indirect medical education adjustment*. An additional adjustment is made based on the ratio of residents to the average daily patient census of the hospital to account for the indirect costs of medical education.

(c) *Additional payment for outlier cases*. Payment is made for day outlier cases as provided for in §412.82 and for cost outlier cases if both capital-related and operating-related costs exceed the cost outlier threshold as provided for in §412.84.

(d) *Payment for transfer cases*. Payment is made for transfer cases as provided for in §412.4.

§412.316 Geographic adjustment factors.

(a) *Local cost variation*. HCFA adjusts for local cost variation based on the hospital wage index value that is applicable to the hospital under §412.63(k). The adjustment factor equals the hospital wage index value applicable to the hospital raised to the .6848 power

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and is applied to 100 percent of the Federal rate.

(b) *Large urban location*. HCFA provides an additional payment to a hospital located, for purposes of receiving payment under §412.63(a), in a large urban area equal to 3.0 percent of what would otherwise be payable to the hospital based on the Federal rate.

(c) *Cost-of-living adjustment*. HCFA provides an additional payment to a hospital located in Alaska and Hawaii equal to $[(.3152 \times (\text{the cost-of-living adjustment factor used to determine payments under } §412.115 - 1))] \text{ percent}$.

§412.320 Disproportionate share adjustment factor.

(a) *Criteria for classification*. A hospital is classified as a “disproportionate share hospital” for the purposes of capital prospective payments if either of the following conditions is met:

(1) The hospital is located, for purposes of receiving payment under §412.63(a), in an urban area, has 100 or more beds as determined in accordance with §412.105(b) and serves low-income patients, as determined under §412.106(b).

(2) The hospital meets the criteria in §412.106(c)(2).

(b) *Payment adjustment factor*. (1) If a hospital meets the criteria in paragraph (a)(1) of this section for a disproportionate share hospital for purposes of capital prospective payments, the disproportionate share payment adjustment factor equals $[e \text{ raised to the power of } (.2025 \times \text{the hospital's disproportionate patient percentage as determined under } §412.106(b)(5)), - 1]$, where e is the natural antilog of 1.

(2) If a hospital meets the criteria in §412.106(c)(2) for purposes of hospital inpatient operating prospective payments, the disproportionate share adjustment factor is the factor that results from deeming the hospital to have the same disproportionate share patient percentage that would yield its operating disproportionate share adjustment.

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